



California Public Employees' Retirement System
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Agenda Item 3c

April 12, 2011

TO: MEMBERS OF THE BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

- I. **SUBJECT:** SB 503 (Vargas) – As Introduced February 17, 2011
Judges' Retirement System II: Credit for Subordinate
Judicial Officer Service

Sponsor: California Judges Association

- II. **PROGRAM:** Legislation

- III. **RECOMMENDATION:** Neutral

IV. **ANALYSIS:**

Under the Judges' Retirement System II (JRS II) current law allows a judge to elect to purchase, prior to retirement, all of the time served as a subordinate judicial officer (SJO) and pay the full employee and employer cost (based on an actuarial present value). This bill would instead allow a member of JRS II, to make, prior to retirement, a one-time written election to purchase service credit, for any number of whole years of time served as a SJO.

Background

Legislation enacted in 1994 closed the Judges' Retirement System (JRS) to new members and established the JRS II as a contributory retirement system for newly elected or appointed judges. The normal contribution rate for JRS II members is 8 percent of salary, and the State's contribution is annually determined by the CalPERS Board of Administration to assure the accrual soundness of the Judges' Retirement Fund II. The State's contribution rate for 2010-2011 is 24.041 percent of salary. JRS II provides its members a choice (based on eligibility) of either a Defined Benefit Plan or a Monetary Credit Plan. Over \$1.3 million was paid in JRS II benefits for plan year 2009-2010.

To qualify for a service retirement, a judge must be at least 65 years of age with at least 20 years of service, or 70 years of age with at least five years of service. The monthly retirement allowance equals 3.75 percent of final compensation, multiplied by the number of years of service, up to a maximum of 75 percent of final compensation.

Under the Monetary Credit Plan, monetary credits are equal to 18 percent of a judge's monthly salary, plus interest. A judge who leaves office before accruing at least five years of service is paid the amount of his or her contributions to JRS II. A judge that leaves judicial office after accruing five or more years of service, and who is not eligible for a Defined Benefit Plan, is paid the amount of his or her Monetary Credits.

Subordinate Judicial Officers

Subordinate judicial officers include court commissioners, referees, and juvenile hearing officers. SJO's are not members of JRS or JRS II, instead they participate in CalPERS or one of the twenty 1937 Act County Retirement Systems, or another county retirement system. There are currently 360 subordinate judicial officers. However, 98 of those positions, upon vacancy, will be converted to judgeships and will no longer be eligible to be filled by SJOs. Since January 1, 2002, only one JRS II member has elected to purchase SJO time.

Service Credit Purchases for Subordinate Judicial Service

Existing law provides for the following:

- A judge must have a minimum of six years of judicial service to be eligible for benefits provided by retiring concurrently from JRS II and CalPERS or a county retirement system.
- A JRS II member must file a written election to make contributions and receive service credit for all of the time the judge served as an SJO, excluding any period of time for which the judge is receiving, or is entitled to receive, a retirement allowance from any other public retirement system.
- A judge is required to purchase all of the time served as an SJO. A judge electing to purchase SJO service credit in JRS II is required to pay the full employee and employer cost (based on an actuarial present value).

Proposed Changes:

SB 503 would allow a judge who is a member of JRS II, to make a one-time written election prior to retirement, to purchase and receive service credit for any number of whole years served as a full-time Subordinate Judicial Officer.

Legislative History

- 2008 Chapter 626 (AB 545, Walters) – Allows CalPERS to process applications to purchase service credit for active duty military leave by members of JRS II, to comply with the federal Uniformed Service Employment and Reemployment Rights Act (USERRA). *CalPERS Position: Support*
- 2001 Chapter 433 (AB 1099, Havice) – Permits members of the JRS and JRS II to purchase service as a SJO, if the member pays the actuarial present value of the increase in benefits due to the additional service, excluding service credited to another retirement system. Includes JRS II among the systems that have reciprocity for final compensation. *CalPERS Position: Support*
- 1998 Chapter 996 (AB 2764, Assembly PER&SS) – Permits JRS members to purchase and receive credit for time spent as a federal court judge. Requires JRS II members to pay an amount equal to the present value of the increase in benefit due to the additional service. *CalPERS Position: Support with Amendments*
- 1992 Chapter 176 (SB 1129, Dills) – Among other things, allows judges to elect the purchase of justice court service. *CalPERS Position: Neutral with Amendments*

Issues

1. Arguments in Support

According to the sponsor, there is no reason to require a JRS II judge to purchase all of the time served as an SJO because the cost could be prohibitive. The sponsor believes SB 503 improves current law, because it clarifies that an election by a former SJO to purchase any or all years served as a full-time SJO can be made only once, and requires purchases be for “whole years” in order to prevent judges from purchasing only weeks or months of credit.

Organizations in Support: California Judges Association (Sponsor)

2. Arguments by those in Opposition

There is currently no known opposition.

3. Partial Service Credit Purchases

Existing law allows members of JRS II to purchase service credit for their time as subordinate judicial officers if they purchase all of their SJO service, and pay the actuarial present value of the increase in benefits due to the additional service. In order to meet the requirements of the federal Internal Revenue Code, members also cannot receive a benefit for their SJO service from any other retirement system. This requires JRS II members to seek a refund of contributions from the public retirement system that provided the benefits associated with their former SJO service in order to complete their service credit purchase under JRS II. These systems include CalPERS and various county retirement systems.

SB 503 would allow a member of JRS II to make a one-time election to purchase only a portion of their time served as a full time SJO prior to becoming a judge, in whole year increments. This would provide the less costly option of purchasing partial service credit in order to increase their JRS II benefits, however, because the Public Employees' Retirement Law prohibits its members from receiving a partial refund, the JRS II member would be required to refund all of their CalPERS-covered service.

4. Board Legislative Policy

The Board's Legislative Policy Standards recommends a neutral position on proposals that do not significantly affect the benefit interests of our stakeholders and that do not significantly impact CalPERS benefits or the administration of the System. Therefore staff recommends the Board adopt a **neutral** position on SB 503 since it makes minor changes to the provision that allows judges to purchase time served as an SJO.

V. STRATEGIC PLAN:

This item is not a specific product of the Annual or Strategic Plans, but is a part of the regular and ongoing workload of the Office of Governmental Affairs.

VI. RESULTS/COSTS:

Program Costs

Under this proposal, as with existing law, the judge would be required to pay the full employee and employer cost of any SJO service purchased. While service purchases on a present value method are not expected to increase employer contributions unless members are able to successfully select against the system,

they do make the employer contributions more volatile (risk transfer). Taking into consideration that under the current provision only one JRS II member has elected to purchase SJO time since January 1, 2002, and there is a limited number of SJO's that become sitting judges, it is unlikely that this provision would result in a measurable amount of risk transfer.

Administrative Costs

Minor and absorbable costs associated with potential increased workload from processing additional service credit purchase requests.

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